LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS
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FISCAL IMPACT STATEMENT

LS 6514
BILL NUMBER: HB 1043

DATE PREPARED: Nov 22, 1999
BILL AMENDED:

SUBJECT: Unemployment insurance.

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FUNDS AFFECTED: <u>X</u> **GENERAL**
<u>X</u> **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill has the following provisions:
Part (A) The bill changes the period for computation of unemployment benefits.

Part (B) The bill increases the earnings base used to compute unemployment compensation over three years to a maximum of $10,000 in a calendar quarter.

Part (C) It provides that the maximum total amount of unemployment compensation benefits payable may not exceed 26 times the individual's weekly benefit, or 32% of the individual's wage credits with respect to the individual's base period, whichever is less.

Part (D) It decreases the minimum wage credit necessary to qualify for unemployment compensation to $2,000 in the base period, and requires the total wage credits in the base period to equal at least one and one-quarter times the wages paid in the highest quarter.

Part (E) The bill also eliminates the one week waiting period for unemployment compensation.

Part (F) The bill eliminates the 25% reduction of unemployment compensation award for disqualifying conditions and failure to find work. It revises disqualification provisions for unemployment compensation. The bill makes conforming amendments.

Effective Date: July 1, 2000.

Explanation of State Expenditures: All of the provisions of this bill will have an impact to the Unemployment Benefit Trust Fund. The balance of the Unemployment Benefit Trust Fund as of June 30 , 1999 was $1.46 billion.

Part (A) It is anticipated that the change in the computation base could increase the amount of unemployment benefits available to recipients from the Unemployment Benefit Trust Fund. The fiscal impact of this provision is indeterminable but the impact is expected to negligible.

Currently, unemployment benefits are calculated on the first four of the last five calendar quarter. The change in the base period to the last four calendar quarters could delay the computation of benefits and payments to an individual if an employer has not yet submitted quarterly wage reports. For example, an employer is required to submit wage reports for the last quarter of 1999 no later than February 1, 2000. If an individual submits a claim in January 2000 for unemployment benefits, the Department of Workforce Development may have to contact an employer for the wages paid to the individual during the last quarter of 1999. The computation of benefits and the payment of benefits would be delayed until the Department of Workforce Development receives the requested information from the employer.

Part (B) The current earnings base used for the computation of weekly benefits is $5,800 per quarter for a maximum weekly benefit of $244. Increasing the earnings base to $10,000 per quarter increases the maximum weekly benefit to $420, an increase of $176 (72.13%). In 1998, the average weekly benefit paid was $218.57, approximately $25 below the maximum benefit allowed. Using the average weekly unemployment benefits paid in 1998, the following table illustrates the potential fiscal impact of changing the earnings base.

Avg. Computed Weekly Benefit Amount at $5,800	$218.57 per week
Avg. Computed Weekly Benefit Amount at $10,000	$281.25 per week
Dollar increase	$62.68 per week
Per cent increase	28.68%
Amount of Unemployment Insurance compensated in 1999	$289,834,763
1998 amount increased by 28.68%	$83,124,610
Total amount of Unemployment Insurance compensation (28.68% increase of 1998 compensation)	$338,283,389

This provision will impact the amount of benefits available to an individual from the Unemployment Benefit Trust Fund. Based on the amount paid in unemployment benefits in FY1999, this bill would increase expenditures from the Unemployment Benefit Trust Fund by approximately $83 M.

Note: The Unemployment Benefit Trust Fund is funded by quarterly contributions made by employers. The amount of each employer's contribution is based on each employer's individual unemployment account history and the past year's statewide unemployment rate. Other factors, including benefits paid to former employees, voluntary payments made, and the partial selling and purchasing of other businesses by the employer also impact each employer's rate. The potential impact of the provisions of this bill will change as the state's economy changes. For example, if the state's unemployment rate increases, the amount of unemployment benefits paid from the Fund will increase, and an employer's contribution rate to the Fund will change.

Part (C) Currently the weekly benefit amount is the lowest of the following amount: (1) 28% of total earnings in four quarters; or (2) 26 times the weekly benefit based on 5% of the first $2,000 of the high quarter wages and 4% or the remaining wages. This provision changes the maximum total amount of benefits payable to an eligible individual during any benefit period from 28% to 32%, but keeps the benefit period to not more than 26 weeks. In 1999, approximately $269.8 M was paid in unemployment benefits. This provision could have some impact on the amount of benefits paid to an individual from the Unemployment Benefit Trust Fund. The increase in the individual's weekly benefit would be zero to $13 depending on the amount of wage credits. The impact on the Unemployment Benefit Trust Fund is minimal.

Part (D) This provision decreases the minimum computation base for unemployment compensation from $2,750 to $2,000. The total wage credits in the base period are to equal at least 1.25 times the highest quarter. This would mean that an individual could make no more than $1,600 in the base period ($1,600 x 1.25 = $2,000). Under this provision and the provisions of (C), an individual would receive a total benefit of $640 (32% of 2,000).

This bill will increase the number of individuals who are eligible to receive unemployment benefits. In CY 1998 there were 17,146 individuals who were determined to be monetarily ineligible for unemployment benefits. Assuming that all 17,146 of the individuals would be eligible for unemployment benefits under this provision, an estimated $10 M (17,146 x $640) in additional unemployment benefits would be paid from the Unemployment Benefit Trust Fund.

Part (E) The elimination of the one week waiting period for unemployment compensation will have an impact on the amount of interest the Unemployment Insurance Benefit Trust Fund can earn since benefits will be paid out one week earlier. Any reduction in interest earned will not have a substantial impact on the fund. The balance of the fund as of June30, 1999 was $1.46 B and the fund earned $93.5 M in interest through June30, 1999.

Part (F) This bill also eliminates the 25% reduction of unemployment compensation for disqualifying conditions and failure to find work. The bill also revises disqualification provisions for unemployment compensation. This provision would increase the amount of unemployment compensation paid to individuals who currently have disqualifying conditions. At this time the fiscal impact is indeterminable but the increase in the expenditures from the Unemployment Insurance Benefit Trust Fund is expected to be minimal.

The maximum impact to the Unemployment Benefit Trust Fund from the provisions of this bill is an estimated $93 M in additional unemployment benefit compensation annually.

The State of Indiana is self insured for unemployment benefits and pays claims as they occur. Each agency is responsible for paying its unemployment claims. For FY 1999 the state paid $1.5 M in benefits, $956,447 from the General Fund and $574,953 from dedicated funds. The maximum impact to state agencies is about $500,000 ($330,000 from the General Fund and $170,000 from dedicated funds), for the provisions of this bill.

Explanation of State Revenues:

Explanation of Local Expenditures: The impact on a local unit of government will be as an employer. Depending on the experience of the fund rates might increase in future.

Explanation of Local Revenues:

State Agencies Affected: Department of Workforce Development and all State Agencies

Local Agencies Affected: All

Information Sources: Patrick Murphy, Department of Workforce Development, (317)232-1463.